



## Report of the auditor-general to the North West provincial legislature and the council on the Ratlou Local Municipality

### Report on the audit of the financial statements

#### Qualified opinion

1. I have audited the financial statements of the Ratlou Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets and cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Ratlou Local Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (DoRA).

#### Basis for qualified opinion

##### Property plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment, due to inadequate accounting records including an assets register and controls to ensure that all assets were correctly accounted for. I was unable to confirm these assets by alternative means. In addition, the municipality did not review the residual values and useful lives of movables assets as required by GRAP 17, *Property, plant and equipment*. I was unable to quantify the resultant misstatements as it was impracticable to do so. Furthermore, the municipality did not recognise additions to property, plant and equipment correctly resulting in property, plant and equipment being understated by R12 482 720, payables from exchange transactions being understated by R10 633 435 and repairs and maintenance included in general expenditure being overstated by R1 849 285. There was a resultant impact on the surplus for the period and on the accumulated surplus. Consequently, I was unable to determine whether any further adjustments relating to property, plant and equipment of R332 870 693 (2017: R316 828 292) as disclosed in note 10 or the related depreciation expense of R11 244 889 (2017: R11 287 889) as disclosed in note 10 to the financial statements were necessary.

## Context for the opinion

4. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
5. I am independent of the Ratlou Local Municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Unauthorised, irregular and fruitless and wasteful expenditure

8. As disclosed in note 41 to the financial statements, unauthorised expenditure of R32 036 054 in respect of prior years had not yet been dealt with in accordance with section 32 of the MFMA.
9. As disclosed in note 42 to the financial statements, fruitless and wasteful expenditure of R359 070 was incurred in the current year and fruitless and wasteful expenditure of R449 552 from prior years have not yet been dealt with in accordance with section 32 of the MFMA.
10. As disclosed in note 43 to the financial statements, irregular expenditure of R31 786 204 was incurred in the current year and irregular expenditure of R77 319 603 from prior years have not yet been dealt with in accordance with section 32 of the MFMA.

### Restatement of corresponding figures

11. As disclosed in note 47 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of errors in the financial statements of the municipality at, and for the year ended 30 June 2018.

## Other matter

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### Unaudited disclosure note

13. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## Responsibilities of accounting officer for the financial statements

14. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA standards of GRAP and the requirements of the MFMA and the DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
15. In preparing the financial statements, the accounting officer is responsible for assessing the Ratlou Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the

appropriate governance structure either intends to liquidate the municipality's or to cease operations, or has no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

16. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
17. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

### **Report on the audit of the annual performance report**

#### **Introduction and scope**

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
19. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
20. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2018:

<b>Objectives</b>	<b>Pages in the annual performance report</b>
KPA 3 – Local Economic Development	x – x
KPA 4 – Infrastructure Development and Service Delivery	x – x

21. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. I did not identify any material findings on the usefulness and reliability of the reported performance information on any of the selected objectives of the municipality.

#### **Other matters**

23. I draw attention to the matters below.



## Achievement of planned targets

24. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year.

## Adjustment of material misstatements

25. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 3 Local Economic Development and KPA 4 Infrastructure Development and Service Delivery. As management subsequently corrected the misstatements, we did not raise any material findings on the usefulness and reliability of the reported performance information.

## Report on the audit of compliance with legislation

### Introduction and scope

26. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
27. The material findings on compliance with specific matters in key legislations are as follows:

### Annual financial statements

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

### Procurement and contract management

29. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
30. Some of the contracts were awarded to bidders based on preference points that were not allocated or calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.

### Expenditure management

31. Reasonable steps were not taken to prevent irregular expenditure of R31 786 204 as disclosed in note 43 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by not following a competitive bidding process as required by SCM regulation 19(a).
32. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R359 070, as disclosed in note 42 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties on late payments to suppliers

### Assets management

33. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.



## Consequence management

34. Unauthorised, irregular and fruitless and wasteful expenditures incurred by the municipality in prior year was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) and (b) of MFMA.

## Other information

35. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report . The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

36. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

37. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

38. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## Internal control deficiencies

39. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report:

- Leadership did not ensure that adequate policies and procedures were implemented to enable and support the understanding and execution of internal control objectives, processes, and responsibilities resulting in misstatements identified in the financial statements and annual performance report and material deviations from legislation.
- Management's internal controls and processes over the preparation and presentation of financial statements and performance report were not adequate to ensure that the financial statements and performance report were free from material misstatements. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed, monitored and control measures implemented. Furthermore, the action plans to address prior year audit findings were not adequately implemented and monitored
- The municipality did not conduct a risk assessment, as required by the MFMA. Consequently, a significant control deficiencies were identified which resulted in various non-compliance findings and misstatements in the annual financial statements and annual performance report. The audit committee was not in place and internal audit unit was not effective and functional throughout the year.



*Auditor-General*

Rustenburg

30 November 2018



*Auditing to build public confidence*

# Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality’s compliance with respect to the selected subject matters.

## Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ratlou Local Municipality ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

## Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.